

MINUTE ITEM

34. CONSIDERATION OF OIL AND GAS LEASES, SANTA BARBARA COUNTY -
W.O. 3537.

In presenting Supplemental Calendar Item No. 45 attached, the Executive Officer called attention to the fact that the suggested modifications in the basic lease form used in 1958 were preliminary, and that it was proposed to present this matter to the Commission for further consideration at its October meeting, following a review with the office of the Attorney General, with industry committees, and with officials of Santa Barbara County. It is anticipated that bids would not be closed earlier than mid-January of 1961.

The Chairman explained that the Commission action regarding the Shell Oil Company application to open tideland fields off Santa Barbara County for competitive bidding by all oil companies and ultimate drilling by the successful bidder involved a decision to lease on a bonus-bid rather than any alternate-bid basis, and that consideration of the matter by the Lands Commission had extended over many months. It is the Commission's decision that this is the way to bring maximum revenue to the people of the State of California in the long run. Any leases will be drawn to protect the beauties of the Santa Barbara shore.

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, THE FOLLOWING RESOLUTION WAS ADOPTED:

THE COMMISSION:

1. DIRECTS THE EXECUTIVE OFFICER TO COMPLETE A REVIEW OF THE PROPOSED FORM OF OIL AND GAS LEASE UNDER W.O. 3537 THROUGH CONFERENCE WITH THE OFFICE OF THE ATTORNEY GENERAL, PETROLEUM AND OTHER INDUSTRY COMMITTEES AND THEIR INTERESTED MEMBERS, AND THE REPRESENTATIVES OF THE COUNTY OF SANTA BARBARA.
2. DIRECTS THE EXECUTIVE OFFICER TO PRESENT FOR COMMISSION CONSIDERATION, AT THE OCTOBER 1960 MEETING, A PROPOSED FORM OF OIL AND GAS LEASE APPROVED BY THE OFFICE OF THE ATTORNEY GENERAL AS TO FORM AND COMPLIANCE WITH DIVISION 6 OF THE PUBLIC RESOURCES CODE, WITH RECOMMENDATIONS AS TO SPECIFIC AREAS OF TIDE AND SUBMERGED LANDS FOR WHICH THE COMMISSION SHOULD AUTHORIZE PUBLICATION OF NOTICES TO RECEIVE BIDS FOR OIL AND GAS LEASES.

Attachment

Calendar Item 45 (4 pages)

CALENDAR ITEM

SUPPLEMENTAL

45.

CONSIDERATION OF OIL AND GAS LEASES, SANTA BARBARA COUNTY - W.O. 3537.

Pursuant to a letter request received from the Shell Oil Company that the Commission consider offering, for oil and gas lease, under the Public Resources Code, approximately 37,000 acres of tide and submerged lands offshore in Santa Barbara County, the Commission authorized the Executive Officer to proceed with the publication of the notice, required by Section 6873.2 of the Public Resources Code, that the Commission intends to consider offering leases for the extraction of oil and gas. The area under consideration includes all the tide and submerged lands not covered by existing State oil and gas leases lying between the westernmost State oil and gas lease in the Elwood Field and Point Conception, Santa Barbara County, and extending seaward three nautical miles, containing approximately 50,000 acres (Minute Item 27, pages 5908-09).

No hearing was requested by the County of Santa Barbara, as provided for in Section 6873.2 of the Public Resources Code. However, the Commission did authorize and hold a review in Los Angeles on oil and gas leasing policies on May 31 and June 1, 1960 (Minute Item 27, pages 5908-09), and a review in Santa Barbara County of proposed oil and gas lease terms and conditions on August 25, 1960 (Minute Item 28, pages 6177-78).

A staff review of proposed oil and gas lease terms and conditions for bid offer has been completed, in which full consideration was given to the information received at the aforesaid Commission reviews and to the operating and administrative experience derived from the last series of five oil and gas leases awarded by the Commission in Santa Barbara County in 1958. As a result, it is suggested that consideration be given to the utilization of the same basic lease form and bid invitation conditions as applied for Leases P.R.C.s 2198, 2199, 2205, 2206, and 2207, awarded in 1958, with the following modifications: (These proposed modifications are also indicated by riders on the attached copies of the prior lease form referred to above.)

Page 2

Insert as Section 1 on page 2, and renumber all following sections:

"1. In consideration of the issuance of Oil and Gas Lease Work Order
_____, the undersigned, who has executed this lease form on page 17
hereof, agree to pay the State of California a cash bonus of _____"

Purpose: To eliminate any question that the payment of the cash bonus is a portion of the consideration and included in the lease. Statements relative to bonus payment were previously contained only in an exhibit to the lease and in the outline of bidding procedure.

SUPPLEMENTAL CALENDAR ITEM 45. (CONTD.)

Page 2, lines 28 to 30

Substitute:

"The term 'commence operations', as used in this lease and in Exhibit 'A' attached hereto and by reference made a part hereof, is hereby defined to be the actual penetration of the ground with a drilling bit."

Purpose: To provide consistent inclusion and referencing of exhibits throughout the lease form.

Page 4, following line 26

Add new paragraph:

"In the event of the conduct of secondary recovery operations by the Lessee, with the approval of the State, the oil royalty payable pursuant to this section and Exhibit 'B' hereof shall be calculated at the primary production rate which would have been in effect absent any stimulation from the secondary recovery operations."

Purpose: To provide for equitable oil-royalty-rate computation based on the primary production rates of wells. To eliminate dual costs to the Lessee which would result from the cost of installation and operation of secondary recovery operations and payment of accelerated royalty rates resulting solely from accelerated production by reason of the conduct of secondary recovery operations.

Page 8, lines 9 through 12

Substitute:

"11. The Lessee shall commence operations for the drilling of wells into the leased lands in accordance with Exhibit 'A' ~~attached hereto~~ hereof ~~and by reference made a part hereof~~, and shall thereafter diligently prosecute such operations.

Purpose: To provide consistent inclusion and referencing of exhibits throughout the lease form.

Page 19, line 12 and line 17

Substitute "6,000 feet" for "8,000 feet".

Purpose: To establish the optimum well-density compatible with the inter-related factors of well-drainage area, depth of productive horizon, and costs of drilling sites.

SUPPLEMENTAL CALENDAR ITEM 45. (CONTD.)

Page 19, lines 25 through 29

Substitute:

"respectively. A well may, with the approval of the State, be completed in more than one zone, and for the purpose of satisfying the drilling requirements of Subparagraphs a, b, and c of this section, and for ~~such~~ the purposes only of this lease shall be considered a separate well for each zone into which it is completed and ~~producing~~ from which it can and does produce separately."

Purpose: To assure proper lease accounting for the total effective number of separate producing wells.

Page 21, lines 14 through 18

Substitutes:

"8. No permanent filled lands, platforms, or other fixed or floating structures for well sites or other operations for oil and gas development from the area leased hereunder shall be constructed, used, maintained, or operated at an elevation above extreme low water at any location less than statute mile seaward of the ordinary high water mark of the Pacific Ocean;"

Purpose: To assure that the specification of minimum distances offshore prescribed for filled lands, platforms, fixed or floating structures, and appurtenant facilities would apply only to such structures and facilities ~~as project~~ above the water.

NOTE: Sections 7 and 8, page 21, prohibiting the construction or use of piers and the placement of offshore facilities closer than a specified minimum distance offshore, would be applicable only to areas considered for lease offer easterly of Gavzota, Santa Barbara County.

The foregoing proposed revisions have not been reviewed with the Office of the Attorney General, with industry committees, or with officials of Santa Barbara County.

IT IS RECOMMENDED THAT THE COMMISSION:

- (1) DIRECT THE EXECUTIVE OFFICER TO COMPLETE A REVIEW OF THE PROPOSED FORM OF OIL AND GAS LEASE UNDER W.O. 3537 THROUGH CONFERENCE WITH THE OFFICE OF THE ATTORNEY GENERAL, PETROLEUM AND OTHER INDUSTRY COMMITTEES AND THEIR INTERESTED MEMBERS, AND THE REPRESENTATIVES OF THE COUNTY OF SANTA BARBARA.

SUPPLEMENTAL CALENDAR ITEM 45, (CONTD.)

- (2) DIRECT THE EXECUTIVE OFFICER TO PRESENT FOR COMMISSION CONSIDERATION, AT THE OCTOBER 1960 MEETING, A PROPOSED FORM OF OIL AND GAS LEASE APPROVED BY THE OFFICE OF THE ATTORNEY GENERAL AS TO FORM AND COMPLIANCE WITH DIVISION 6 OF THE PUBLIC RESOURCES CODE, WITH RECOMMENDATIONS AS TO SPECIFIC AREAS OF TIDE AND SUBMERGED LANDS FOR WHICH THE COMMISSION SHOULD AUTHORIZE PUBLICATION OF NOTICES TO RECEIVE BIDS FOR OIL AND GAS LEASES.